Tomba del tuffatore
Museo Archeologico di Paestum

Centre for Studies in Economics and Finance
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CSEF
Centre for Studies in Economics and Finance

ACTIVITY REPORT

2008

University of Naples Federico II **University of Salerno** **Bocconi University, Milan**

Contents

What is CSEF?

The Centre for Studies in Economics and Finance (CSEF) was established by the University of Naples Federico II, the University of Salerno, and Bocconi University to perform and promote research on household choices, financial economics and microeconomic theory. The primary aim of CSEF is to link up researchers in Salerno, Naples and Bocconi with international research on these issues via seminars, conferences, exchange of researchers and joint research projects.

Starting in 2009 CSEF premises will be at the Department of Economics of the University of Naples Federico II, where CSEF hosts researchers and doctoral students from other Italian universities and other countries. CSEF features a weekly research seminar, open to faculty and doctoral students, and collaborates with the Master in Economics and Finance (MEF) at the University of Naples Federico II.

Besides strengthening the networking between its parent institutions, the Centre applies for research grants, organizes workshops and conferences, and runs research projects as an independent entity.

The Centre's e administration is entrusted to Lia Ambrosio.

News

We are delighted to welcome two new young researchers at CSEF: **Matteo Bassi**, who specializes in public economics and has a Ph.D at the University of Toulouse, and **Ciro Avitabile**, an applied econometrician who is completing his Ph.D at University College London and is the recipient of the Modigliani Scholarship granted by the "Marco Fanno" Scholars Association.

Last year CSEF Fellows **Giacinta Cestone** and **Giovanni Cespa** took a position at Queen Mary College in London, **Mario Padula** moved to the University of Venice and **Elena Del Mercato** accepted a position at the University of Paris 1. We offer our departing colleagues our best wishes for their continued success; they will keep their affiliation as CSEF Fellows, and we look forward to their continued collaboration.

In 2008 CSEF hosted several researchers who carried out joint research projects with CSEF Fellows and taught in the Master in Economics and Finance: **Yannis Billias** (University of Athens), **Andrew Ellul** (Indiana University), **Dimitris Georgarakos** (University of Frankfurt), **Michael Haliassos** (Frankfurt University), **Vincent Iehlé** (University Paris 1 Panthéon-Sorbonne, Paris) and **Christian Julliard** (London School of Economics).

How to contact us:

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Main Research Projects

Main research areas

Research activity at CSEF focuses on three main areas:

(i) Analysis of household choices (saving, portfolio and labor decisions), especially regarding saving, portfolio choice, retirement and labor supply.

(ii) Financial economics (banking, securities markets, corporate finance). Main areas of research include links between finance and the macroeconomy, law and finance, and corporate governance issues.

(iii) Microeconomic theory, and in particular the economics of information, contract theory, and the design of regulation.

Funding

Research projects carried out at CSEF in 2008 were funded by the Compagnia di San Paolo, the Sixth Research and Technological Development Framework Programme, the Italian Ministry of University and Research (MIUR) and the Unicredit Group.

Conferences

5rd Workshop for Italian PhD Students in Economics

The Fifth Workshop on *Contribution to Economics by Young Italian Students* was held at the Hotel Convento San Michele in Salerno on May 22-23, 2008. The Workshop was organized by CSEF Fellows **Dimitrios Christelis** and **Giovanni Immordino**.

Italian scholars in economics who had completed or near to complete their PhD dissertation were invited to submit one of their papers at the workshop. The aim of the workshop was to favour the interaction between young and senior researchers, providing young scholars with a useful opportunity to obtain feedback from leaders in their field. Four young researchers were selected for presentations among the 50 submissions: **Danilo Cavapozzi** (University of Padua), **Tommaso Gabrieli** (University of Warwick), **Alessandro Notarpietro** (Bocconi University) and **Giuseppe Rose** (Birkbeck College).

Each paper was discussed by a senior researcher, who also presented one of his own recent contributions: **Marco Battaglini** (Princeton University), **Michael Haliassos** (Goethe University Frankfurt), **Bruno Jullien** (Toulouse School of Economics) e **Arthur van Soest** (Tilburg University).

XVII European Workshop on General Equilibrium Theory

The *XVII European Workshop on General Equilibrium Theory* has been organized in Paestum (June 13-15) by the Department of Economics of the University of Salerno. The Workshop featured sessions on general equilibrium theory and its applications in other areas of economics, such as public economic theory, financial markets, economics of information, contract theory, macroeconomic and monetary theory, and has hosted a **CSEF-sponsored Lecture in Economic Theory by Michele Boldrin** (Washington University in St. Luis) on “Innovations, growth and cycles”. The Workshop was organized by CSEF Fellows **Elena del Mercato**, **Alberto Bennardo** and **Marcello D’Amato**.

4nd Csef-Igier Symposium on Economics and Institutions

On June 23-27, 2008, the Centre for Studies in Economics and Finance (CSEF) and the Innocenzo Gasparini Institute for Economic Research (IGIER Bocconi) hold their joint CSEF-IGIER Symposium on Economics and Institutions. The conference structure reflected the intention of leaving time for free, informal discussion. Seminars took place in the mornings in three parallel sessions. Afternoons were reserved for more informal workshops and collaborative work.
The conference program included papers in the following areas:

- Microeconomic Theory
- Finance
- Industrial Organization
- Applied Microeconomics

Jeremy Bulow (Stanford University), **Pierre-André Chiappori** (Columbia University), **Vassilis Hajivassiliou** (London School of Economics), **Andrea Ichino** (Università di Bologna), **Roman Inderst** (LSE and University of Frankfurt), **Francis Kramarz** (Ecole Polytechnique and CREST) **Albert Ma** (Boston University), **Dilip Mookherjee** (Boston University), and **David Thesmar** (HEC Paris). The Workshop was organized by CSEF Fellows **Alberto Bennardo**, **Chiara Fumagalli**, **Marco Pagnozzi** and **Giovanni Pica** together with IGIER Fellow **Michele Pellizzari**.

Seminars

In 2008 CSEF hosted one or two research seminars per week. Papers were presented both by invited speakers and resident researchers:

January

Simona Grassi (Boston University), *Subsidy Design and Asymmetric Information: Wealth versus Benefits* (with Ching-to and Albert Ma)

Giancarlo Spagnolo (University of Rome "Tor Vergata"), *Fines, Leniency, Rewards And Organized Crime: Evidence From Antitrust Experiments* (with M. Bigoni, S.-O. Fridolfsson and C. Le Coq)

Marco Pagano (University of Naples "Federico II"), *Inheritance Law and Investment in Family Firms* (with A. Ellul and F. Panunzi)

Giovanni Immordino (University of Salerno), *Judicial Errors and Innovative Activity*

Claudio Mezzetti (University of Leicester), *Aversion to Price Risk and the Afternoon Effect*

February

Fabiano Schivardi (University of Cagliari), *Entry Barriers in Retail Trade* (with Eliana Viviano)

Roberto Bonfatti (London School of Economics), *Decolonization: the Role of Changing World Factor Endowments*

Fabrizio Colonna (University of Minnesota), *Labor market and Schooling Choice: Italy vs US*

Giacomo Rodano (London School of Economics), *Personal Bankruptcy Law and Entrepreneurship: A Quantitative Assessment* (with Jochen Mankart)

Ines Buono (Universitat Pompeu Fabra), *Firm Heterogeneity and Comparative Advantage: Evidence on French Firm's Response to the Entry of Turkey in the European Customs Union*

Steffan Ball (Cambridge University), *Stock Market Participation, Portfolio Choice and Pensions over the Life-Cycle*

Benedetto Molinari (Universitat Pompeu Fabra), *Sticky Information and Inflation Persistence: (Bad) Evidence from U.S. data*

Luigi Guiso (European University Institute), *Long Term Persistence* (with Paola Sapienza and Luigi Zingales)

March

Crina Pungulescu (Tilburg University), *Financial Market Integration and the Home Bias Puzzle* (with Lieven Baele and Jenke Ter Horst)

Olivier Compte (Ecole Nationale des Ponts et Chaussées), *Repeated Games and Limited Information Processing* (with Andrew Postlewaite)

Fabrizio Perri (University of Minnesota), *Tax Buyouts*

Rick Van Der Ploeg (European University Institute), *Financial Development and the Natural Resource Curse* (with Steven Poelhekke)

April

Viral Acharya (London Business School), *Corporate Governance Externalities* (with Paolo Volpin)

Paolo Surico (Bank of England), *Household External Finance and Consumption* (with T. Besley and N. Meads)

Ettore Damiano (University of Toronto), *Credible Ratings*

Giovanni Pica (University of Salerno), *Employment Protection Legislation, Productivity and Investment: Evidence from Italy* (with F. Cingano, M. Leonardi and J. Messina)

Maria Navarro (FEDEA), *Income Satisfaction and Deprivation in Spain* (with J.M. Labeaga and J.A. Molina)

Matteo Bassi (Toulouse School of Economics - GREMAQ), *An Egg Today and a Chicken Tomorrow: A Model of Social Security with Quasi-Hyperbolic Discounting*

Carlo Favero (Bocconi University), *Debt and the Effects of Fiscal Policy*

Francesco Lippi (University of Sassari), *Financial Innovation and the Transactions Demand for Cash* (with F. Alvarez)

May

Elisabetta Marzano (University of Naples Parthenope), *Search on the Job and Job Mobility in European Countries: Evidence Based on the European Community Household Panel Survey*

Erik Eyster (London School of Economics), *Naive Herding* (with M. Rabin)

Thierry Magnac (IDEI, University Toulouse 1), *Formal and Informal Risk Sharing in LDCs: Theory and Empirical Evidence* (with P. Dubois and B. Jullien)

Andrew Ellul (Indiana University), *Do Financial Analysts Restrain Insiders' Informational Advantage? (with* Marios Panayides)

Gennaro Bernile (University of Miami), *Understanding Investor Sentiment: The Case of Soccer* (with Evgeny Lyandres)

June

Christian Julliard (London School of Economics), *Can Rare Events Explain the Equity Premium Puzzle?* (with A. Ghosh)

Dimitrios Christelis (CSEF), *Insecurity and Economic Decisions* (with D. Georgarakos)

Gaetano Bloise (University of Rome III), *A Characterization of Ineffiency in Stochastic Overlapping Generations* (with Filippo L. Calciano)

Radim Bohacek (Charles University), *Social Security Reform in a Dynastic Life-Cycle Model with Endogenous Fertility* (with Volha Belush)

October

Andrea Attar (Toulouse School of Economics), *Bertrand-Edgeworth Competition under Non-Exclusivity*

Christopher Hennessy (London Business School), *Security Design and the Informational Role of Prices*

Franceso Drago (University of Naples Parthenope), *Network Effects in Prison: Evidence from the Italian Collective Clemency Bill*

Nenad Kos (University Bocconi), *Asking Questions*

Orazio Attanasio (University College London), *Building Trust: Conditional Cash Transfers and Social Capital*

November	**Ciro Avitabile** (University of Naples “Federico II” and CSEF), *Citizenship Birthright and Parents’ Integration*
	Uday Rajan (University of Michigan), *The Failure of Models That Predict Failure: Distance, Incentives and Defaults* (with A.Seru and V. Vig)
	Matteo Bassi (University of Salerno and CSEF), *Mirrlees Meets Laibson: Optimal Income Taxation with Bounded Rationality*
	Francesco Flaviano Russo (Boston University), The Cost of the Legal System and the Hidden Economy
December	**Antonio Acconcia** (University of Naples “Federico II”), *Accomplice-Witnesses, Organized Crime and Corruption: Theory and Evidence from Italy* (with. S. Piccolo and G. Immordino)
	David Martimort (Toulouse School of Economics), *Mechanism Design with Bilateral Contracting* (with V. Dequiedt)
	Juanjo Ganuza (Universitat Pompeu Fabra), *Ordering Signals According to Dispersion of Conditional Expectation and the Supply of Private Information in Auctions*
	Mario Padula (University of Venice and CSEF), *Errors in Survey Reports of Consumption Expenditures* (with E. Battistin)

ANTONIO ACCONCIA is Associate Professor of Economics at the University of Naples Federico II. In 2008 he published "Vertical restraints under asymmetric information: on the role of participation constraints", in *The Journal of Industrial Economics* (with R. Martina and S. Piccolo); "A big push to deter corruption: Evidence from Italy", in *Giornale degli Economisti e Annali di Economia* (with C. Cantabene); "Interpreting aggregate fluctations looking at sectors" in *Journal of Economic Dynamics and Control* (with S. Simonelli). He is currently working on the relationship between corruption and mafia as well as on the effect of public spending shocks on household consumption.

CIRO AVITABILE is a Modigliani Research Fellow at the University of Naples Federico II and Junior Fellow of Netspar. He received a PhD in Economics from the University of Salerno and the Master of Advanced Studies from University Pompeu Fabra. He is completing a PhD in Economics at University College London and is a part-time researcher at the Institute of Fiscal Studies. His research interests are in the fields of labour economics, health economics and program evaluation. He is currently working on the impact of social networks on health care utilization both in developed and developing countries. He is also analysing the determinants of the transition from wage employment to self-employment before retirement in the US and in Europe.

ACHILLE BASILE is Professor of Mathematics and Chairman of the Faculty of Economics at the University of Naples Federico II. Recent publications include "Coalitional economies with public projects?" (with M.G. Graziano and A. De Simone), *Social Choice and Welfare* (2005), and "Positive Operators à la Aumann-Shapley on Spaces of Functions on D-lattices?" (with A. Avallone and P. Vitolo), *Positivity*. "Core and Equilibria in Coalitional Asymmetric Information Economies" (with C. Donnini and M.G. Graziano), *Journal of Mathematical Economics*.

MATTEO BASSI is a CSEF Post-doctoral Fellow. In 2008 he received a Ph.D. in Economics from the Toulouse School of Economics, discussing a dissertation on *Behavioral Public Economics*. His current research deals mainly with Public Economics, Political Economy and Behavioral Economics. He is currently working on optimal taxation problems with bounded rationality, on the political economy of social security with time inconsistent agents and on voting behavior with hyperbolic discounting.

ALBERTO BENNARDO is Professor of Economics at the University of Salerno and CEPR Research Affiliate. His research fields are Microeconomic Theory and Applied Contract Theory. His current work focuses on the effects of information sharing in credit markets with multi-bank lending (with M. Pagano and S. Piccolo); private and social incentives to gather information in perfectly and imperfectly competitive financial markets; and second-best optimal compensation schemes involving perks under moral hazard (with Pierre-André Chiappori).

SALVATORE CAPASSO is Associate Professor of Economics at University of Naples "Parthenope". He holds a Ph.D. in Economics from the University of Manchester where he has also been a Research Fellow. He has also been a Research Fellow at the University of Santiago de Compostela (2004-06) and a Visiting Professor at the University of Wisconsin-Milwaukee (2006-07). His fields of research are economic growth, contract theory, monetary economics and theory of financial intermediation. His latest research focuses on the relationship between criminal activity, corruption and growth and on the role of the underground economy in economic development. Latest publications include: "Endogenous Information Frictions, Stock Market Development and Economic Growth", *The Manchester School*; "Threshold Effects of Corruption: Theory and Evidence", *World Development* (with N. Bose and A. Murshid) and "Financial Markets Development and Economic Growth: Tales of Informational Asymmetries", *Journal of Economic Surveys*.

GIOVANNI CESPA is a Reader at Queen Mary University of London and a CEPR Research Affiliate. His research focuses on market microstructure theory and corporate governance. In the former field, he has investigated the effect of short term behavior in financial markets, the properties of different trading mechanisms, and the relationship between the sale of financial market information and insider trading in a dynamic market. In the latter (with G. Cestone), he investigated the relationship between corporate social responsibility and corporate governance. His recent research focuses on the impact that the predictability of liquidity trading patterns has for the existence of a bias in prices when investors hold heterogeneous expectations ("Dynamic Trading and Asset Prices: Keynes vs. Hayek", with X. Vives, 2008). In a paper with T. Foucault, he also investigates the welfare properties of the market for the sale of stock price information ("Insiders-Outsiders, Transparency, and the Value of the Ticker").

GIACINTA CESTONE is Associate Professor of Economics at the University of Salerno. She is a CEPR Research Affiliate, and a ECGI Research Associate. Her research focuses on corporate finance, corporate governance and industrial organization. She has investigated the interaction between firms' financial decisions and product market competition ("Anticompetitive Financial Contracting: The Design of Financial Claims", with L. White, *Journal of Finance*, 2003, and "The Strategic Impact of Resource Flexibility in Business Groups", with C. Fumagalli, *RAND Journal of Economics,* 2005). Her current research empirically investigates whether incumbent firms affiliated with long-pursed business groups may deter entry in product markets. She has also contributed to the literature on venture capital finance. In an ongoing paper with J. Lerner and L. White she studies how double-sided asymmetric information shapes venture capital syndication deals. She has also investigated the relationship between corporate social responsibility and corporate governance in a joint paper with G. Cespa (*Journal of Economics and Management Strategy*, 2007).

MARIA CONCETTA CHIURI is a Professor of Economics at the University of Bari. Her research interests focus on family economics, social and fiscal policies and migration. In a recent paper jointly written with T. Jappelli ("Do the elderly reduce housing equity? An international comparison", forthcoming on the *Journal of Population Economics*) they find that differences across country ownership trajectories are correlated with indicators measuring the degree of market regulations. She has also been working jointly with D. Del Boca on a paper entitled “Household membership decisions of adult children: do gender and institutions matter?” that appeared in 2008 as Collegio Carlo Alberto Working paper no. 75 and as IZA Discussion paper no. 3546.

DIMITRIOS CHRISTELIS is a Research Officer of the Survey of Health, Aging and Retirement in Europe (SHARE). He obtained his Ph.D. in Economics from the University of Pennsylvania in 2003. His research interests include household portfolio choice, imputation of missing data and panel data estimation methods. Recently, he has been working on household investment in foreign assets (with D. Georgarakos), and cross-country comparisons of portfolios of older households (with D. Georgarakos and M. Haliassos).

PAOLO COCCORESE is Associate Professor of Economics at the University of Salerno. He holds a Ph.D. in Economics from the University of Naples Federico II. His current research focuses on the theory of industrial organisation, the market structure of the banking industry, and the role of financial markets on economic growth. Recent publications include: “Competition in Markets with Dominant Firms: A Note on the Evidence from the Italian Banking Industry”, *Journal of Banking and Finance*, 2005; “An Investigation on the Causal Relationships between Banking Concentration and Economic Growth”, *International Review of Financial Analysis*, 2008; “Bank Competition and Regional Differences”, *Economics Letters*, 2008.

MARCELLO D’AMATO Is Professor of Economics at the University of Salerno. His current research focuses on Central Bank Institutions, the Political Economy of Social Security, on Education and Social Mobility and on Managerial Incentives. Recent publications include: “Gone for Good? Determinants on School Drop-Out in Southern Italy”, *Giornale degli Economisti e Annali di Economia*, 2007 (with N. O’Higgins, F.E. Caroleo e A. Barone); “Product Market Competition and Organizational Slack under Profit Target Contracts”, *International Journal of Industrial Organization*, 2008 (with R. Martina e S. Piccolo)*;* “On the determinants of Central Bank Independence”, forthcoming in the *International Journal of Finance and Economics* (with B. Pistoresi e F. Salsano). In 2008 he has produced the working paper “Political Intergenerational Risk Sharing”, *CEPR Discussion Paper* n. 6972 (with V. Galasso).

ELENA L. DEL MERCATO is Maître de Conférences of Mathematics at University Paris 1 Panthéon-Sorbonne (Paris). She holds a PhD in Mathematics for Economic Decisions from the University of Pisa and has been Assistant Professor at University of Salerno from 2004 to 2008. Her current research focuses on externalities and public goods in microeconomic theory. Last year she published “General Consumption Constraints and Regular Economies” (with J.-M. Bonnisseau), Journal of Mathematical Economics. In 2006, she published “Existence of Competitive Equilibria with Externalities: a Differential Viewpoint”, *Journal of Mathematical Economics*; “Taxes and Money in Incomplete Financial Markets” (with A. Villanacci), *Decisions in Economics and Finance*; “Edgeworth and Lindahl Equilibria of a General Equilibrium Model with Private Provision of Public Goods” (with M. Florenzano), *Journal of Public Economic Theory*. Recent working papers include “Externalities, Consumption Constraints and Regular Economies” (with J.-M. Bonnisseau), CSEF Working Paper No. 195, 2008. She is currently participant to the ESF Network on “Public Goods, Public Projects and Externalities” and is a member of the Centre d'Economie de la Sorbonne (CSE).

SERGIO DESTEFANIS is Professor of Economics at the University of Salerno. He holds a Ph.D. in Economics from the University of Cambridge. He is a member of the Executive Committee of the Italian Association of Labour Economics, and heads the Ph.D. Programme in Economics at the University of Salerno. His research focuses on the macroeconomic analysis of the labour market, the quantitative analysis of productive processes, and growth and development in dualistic economies. Last year he published a paper (with M.O. Rizza) on Central Bank Independence and Corporatism in *Rivista Internazionale di Scienze Sociali*, and a paper (with M. Costantini) on “Cointegration Analysis for Cross-sectionally Dependent Panels” in *Economic Modelling*. A paper (with V. Sena) on “Public Capital, Productivity and Trade Balance in the Italian Regions” is forthcoming in *Empirical Economics*. A book on *Paid and Unpaid Labour in the Social economy. An International Perspective* (edited with M. Musella) is currently being published by Physica-Verlag, Heidelberg. This book also contains a joint paper with O.W. Maietta on the productivity of volunteer labour. His current research deals with the relationships between technology and firm size distribution (with P. Ganugi and L. Crosato), the comparison of American and European labour markets (with R. Fonseca and R. Warren), the evaluation of the OECD Jobs Strategy (with G. Mastromatteo), and the impact of business incentives on manufacturing firms (with F.E. Caroleo and G. Lubrano Lavadera).

FRANCESCO DRAGO is Assistant Professor at the University of Napoli Parthenope and a Research Affiliate at IZA, Bonn. He obtained his Ph.D. in economics from the University of Siena in 2006 and in the last two years he was a visiting scholar at the University College of London and Columbia University. His research interests are in the fields of labour economics, behavioural economics and crime. He is currently involved in a research project with R. Galbiati and P. Vertova in which he estimates spillover effects and social interactions in crime using micro data from Italy and France.

CARLO FAVERO is Professor of Economics at Bocconi University and a CEPR Research Fellow. His current research focuses on reassessing the expectations model of the term structure of interest rates and measuring term premia; the monetary-fiscal mix; and forecasting macroeconomic and financial time-series. In 2008 he published “Should the Euro Area Be Run as a Closed Economy?," in the *American Economic Review* and wrote "Euro area money demand and international portfolio allocation” with R. De Santis and B. Roffia (ECB Working Paper 926) and “Demographics and Fluctuations in Dividend/Price” (with A. Tamoni and A. Gozluklu). Two papers are forthcoming: “The Econometrics of Monetary Policy: an Overview”, in T.C. Mills and K. Patterson, *Palgrave Handbook of Econometrics: Volume 2, Applied Econometrics*; and “How Does Liquidity Affect Bond Yields?” (with M. Pagano and E. Von Thadden), *Journal of Financial and Quantitative Analysis*.

CHIARA FUMAGALLI is Associate Professor of Economics at Bocconi University and a CEPR Research Affiliate. She is also special consultant of LECG. She holds a Ph.D. in Economics from Universitat Pompeu Fabra. Her research focuses on industrial organization, in particular on competition policy issues. Part of her work deals with the interaction between firms' financial decisions and competitive behaviour. Her paper with G. Cestone "The Strategic impact of resource flexibility in business groups", has been published in the *RAND Journal of Economics* in 2005. In a related paper with X. Boutin, G. Cestone, G. Pica and N. Serrano Velarde she is testing empirically whether internal capital market allocations affect market entry. She has also contributed to the literature on exclusive dealings. A recent paper with M. Motta ("Exclusive Dealing and Entry, when Buyers Compete"), has been published in the *American Economic Review* in 2006. The paper "On the anticompetitive effect of exclusive dealing when entry by merger is possible" (with M. Motta and L. Persson) is forthcoming in *The Journal of Industrial Economics.* In a recent project with M. Motta and T. Ronde she is studying the welfare effects of exclusive dealing when investment promotion can interact with potential foreclosure. Finally, she is working on Buyer Power. On this issue, the paper "Buyers' miscoordination, entry, and downstream competition" (with M. Motta) has been published this year in *The Economic Journal.*

VINCENZO GALASSO is Associate Professor of Economics at Bocconi University, a research fellow of IGIER, research affiliate of CEPR and an associate editor of the European Journal of Political Economy. His current research focuses on the interactions between fertility decisions and welfare state, on the selection of politicians and the political economy of structural reforms. In 2008 he published "Postponing Retirement: the Political Push of Aging", *Journal of Public Economics*, and "Political Complements in the Welfare State: Health Care and Social Security", *Journal of Public Economics* (with C. Bethencourt). His book "*The Political Future of Social Security in Aging Societies*, published in 2006 with MIT Press received the 2007 Outstanding Academic Title by *Choice Magazine.*

MARIA GABRIELLA GRAZIANO is Professor of Mathematics at the University of Naples Federico II. Her current research focuses on general equilibrium theory, infinite dimensional economies, economies with public goods, economies with uncertainty and asymmetric information. She has recently published the papers: "Economies with public projects: Efficiency and decentralization", in *International Economic Review,* (2007), "The measure of blocking coalitions in differential information economies" (with G. Bimonte) in *Economic Theory*, (2009), "Core and equilibria in coalitional asymmetric information economies" (with A. Basile and C. Donnini), forthcoming in *Journal of Mathematical Economics.* Recent working papers include: "The Edgeworth's conjecture in finitely additive production economies" (with C. Donnini), "Restricted Coalitions in Asymmetric Information Economies" (with A. Basile and C. Donnini), "Existence of Walrasian expectations equilibria for coalitional economies with asymmetric information" (with C. Donnini), "Coalitional Fairness under Asymmetric Information" (with M. Pesce).

GIOVANNI IMMORDINO is Associate Professor of Economics at the University of Salerno. He holds a Ph.D. in Economics from the University of Toulouse. He is currently working on the relationship between the legal origins of the law and the process of creative destruction and on the relationship between organized crime, corruption and leniency programs. His recent research has focused on the relationship between auditing standards and corporate governance ("Optimal regulation of auditing" with M. Pagano, CESifo Economic Studies, 2007), on the effect of an increase in the fraction of informed inequity-averse consumers on the behaviour of multinationals and on the welfare of the less developed countries ("Fairness, Consumer Consciousness and the Welfare of Less Developed Countries", *Global Economy Journal*, 2008), on the design and enforcement of the law ("Legal Standars, Enforcement and Corruption", with M. Pagano, forthcoming in the *Journal of the European Economic Association*).

TULLIO JAPPELLI is Professor of Economics at the University of Naples Federico II, Research Fellow of CEPR, the Center for Financial Studies (Frankfurt) and Netspar (Tilburg), and a member of the Council of the European Economic Association. In April he started a 5-year term as co-editor of *Economic Policy*. In 2008 he published "A direct test of the buffer stock model of saving" (with M. Padula and L. Pistaferri) in the *Journal of the European Economic Association* and "The impact of perceived public school quality on private school choice in Italy" (with D. Checchi) in *Schools and the Equal Opportunity Problem*, edited by Peterson and Woessman for MIT Press. Last year three papers have been accepted for publication: "Information sharing and credit market performance: firm-level evidence from transition countries (with M. Brown and M. Pagano) is forthcoming in the *Journal of Financial Intermediation*; "Do the elderly reduce housing equity? An international comparison" (with M.C. Chiuri) is forthcoming in the *Journal of Population Economics*; "Financial market integration under EMU" (with M. Pagano) is forthcoming in *Euro - The First Decade*, edited by Buti et al for Cambridge University Press. Last year he has also written working papers on household indebtness (with M. Pagano and M. Di Maggio), the effect of financial literacy on portfolio diversification (with L. Guiso), the role of financial advice (with Michalis Haliassos) and the effect of pension reforms on wealth composition (with R. Bottazzi and M. Padula).

RICCARDO MARSELLI Is Professor of Economics at Parthenope University (Naples). His research focuses on the evaluation of courts' efficiency with non-parametric techniques and the estimation of education production functions. He is currently involved in two research projects: (i) the assessment of the economic costs of crime in Italy and (ii) the role of the education system and active labor market policies in fostering employment opportunities. He is a scientific advisor for the Chamber of Commerce, Milan and CNPDS-ISPAC, Milan.

RICCARDO MARTINA is Professor of Economics at the University of Naples Federico II. He received a Ph.D. in Economics from the University of Naples. His research interests are mainly in the areas of industrial organization and public economics. In 2008 he published "Vertical restraints under asymmetric information: on the role of participation constraints", *Journal of Industrial Economics* (with A. Acconcia and S. Piccolo) and "Product Market

Competition and Organizational Slack under Profit-Target Contracts" (with M. D'Amato and S. Piccolo), *International Journal of Industrial Organization*. Recently he completed a paper on the relationship between corruption and tax evasion (with A. Acconcia and M. D'Amato) and a paper on the "second mover advantage" in multi-stage games with sequential choices (with A. Bonatti). He is currently working with S. Piccolo on the analysis of the welfare properties of market externalities in bilateral contracting.

ANNAMARIA MENICHINI is Associate Professor of Economics at the University of Salerno. She holds a Ph.D in Economics from the University of York. Her research interests focus on financial economics, contract theory, and incomplete contracts. In 2008 the paper "Third Parties, Information Disclosure and Monitoring Incentives" has been published in the *Scottish Journal of Political Economy*. She also wrote "The Strategic and Social Power of Signal Acquisition", joint with P. Simmons (CSEF Working Paper n. 201, 2008). Her current research focuses on the role of information gathering in the design of auditing policies.

JACQUELINE MORGAN is Professor of Game Theory at the University of Naples Federico II. Her recent research has focused on: 1) two refinement concepts for Nash equilibria which capture some idea of altruism, namely "slightly altruistic equilibria" (*Journal of Optimization Theory and Applications*, 2008, with G. De Marco) and "friendliness equilibria" (*International Game Theory Review*, 2008, with G. De Marco), which allow to exhibit a selection device between network architectures in non-cooperative social networks ("Social Networks: Equilibrium selection and friendlness", CSEF Working Paper n.198, 2008, with G. De Marco); 2) new results of existence of social Nash equilibria (*Journal of Mathematical Economics*, 2007, with V. Scalzo) and of variational stability (*International Game Theory Review*, 2008, with V. Scalzo) have been obtained using the class of pseudocontinuous functions, which characterizes the continuity of the preference relations and allows to obtain a nice asymptotical behavior in a finite but discontinuous economy ("Asymptotical behavior of finite and possible discontinuous economies", *Economic Theory*, 2007, with V. Scalzo); 3) "multicriteria games" ("Refinement Concept for Equilibria in Multicriteria Games via Stable Scalarizations", *International Game Theory Review*, 2007, with G. De Marco), also in the case of hierarchical situations ("Convergence Results for Weak Efficiency in Vector Optimization Problems with Equilibrium Constraints", *Journal of Optimization Theory and Applications*, 2007, with M.B. Lignola).

NIALL O'HIGGINS is Associate Professor of Economics at the University of Salerno. He holds a Ph. D. in Economics from the European University Institute in Florence. His research interests cover various areas of labour economics and experimental economics. He is currently working on the labour market entry of young people, discrimination in the returns to education in Central & Eastern Europe, causes and consequences of adolescent obesity (with Adriana Barone), and the experimental investigation of social capital (with Francesco Farina and Patrizia Sbriglia). Publications since 2007 include articles on school dropout (with Marcello D'Amato et al.) published in the *Giornale degli Economisti,* on panel attrition (with A. Nese) published in the *International Review of Economics,* on home-leaving published in *Economia & Lavoro* and a chapter in G. De Freitas (ed.), *Young Workers in the Global*

Economy: Job Issues in North America, Europe and Japan, Edward Elgar, 2008, on the same subject.

MARIO PADULA is Associate Professor of Econometrics at the University "Ca' Foscari" of Venice. He has a Master in Economics from Bocconi University and a Ph.D. in Economics from University College London. His current research interests are the dynamic properties of expenditures on durable goods, pension reforms, relation between health and saving, and the effect on credit allocation of law enforcement. He is involved in several international projects on saving, retirement and health. In 2008 he published "A Direct test of the Buffer-Stock Model of Saving", joint with T. Jappelli and L. Pistaferri in the *Journal of European Economic Association*.

MARCO PAGANO is Professor of Economic Policy at the University of Naples Federico II, President of EIEF, Research Fellow of CEPR and managing editor of the *Review of Finance*. In 2008, he published the article "Where is the Market? Evidence from Cross-Listings in the U.S." (with M. Halling, O. Randl, and J. Zechner), *Review of Financial Studies*. He also has four forthcoming papers: "Information Sharing and Credit Market Performance: Firm-Level Evidence from Transition Countries" (with M. Brown and T. Jappelli), forthcoming in the *Journal of Financial Intermediation*; "How Does Liquidity Affect Government Bond Yields?" (with C. Favero and E-L. von Thadden), forthcoming in the *Journal of Financial and Quantitative Analysis*; "Legal Standards, Enforcement and Corruption" (with G. Immordino), forthcoming in the *Journal of the European Economic Association;* and "Financial market integration under EMU" (with T. Jappelli) forthcoming in *Euro - The First Decade*, edited by Buti et al for Cambridge University Press. Finally, he produced six working papers with various coauthors: "Norm Flexibility and Private Initiative" (with G. Immordino and M. Polo), "Corporate Fraud, Governance and Auditing" (with G. Immordino), "Multiple-Bank Lending, Creditor Rights and Information Sharing" (with A. Bennardo and S. Piccolo), "Inheritance Law and Investment in Family Firms" (with A. Ellul and F. Panunzi), "Households' Indebtedness and Financial Fragility" (with T. Jappelli and M. Di Maggio), and "Securitization, Disclosure and Liquidity" (with P. Volpin).

MARCO PAGNOZZI is Assistant Professor of Economics at the University of Naples Federico II. He received a D.Phil. in Economics from Oxford University in 2003 and a Ph.D. in Applied Mathematics from the University of Naples Federico II in 2000. His research focuses on auction theory and its application to the sale of public assets. He has recently published three papers: "Bidding to Lose? Auctions with Resale" in *RAND Journal of Economics*, "Are Disadvantaged Bidders Doomed in Ascending Auctions?" in *Journal of Industrial Economics* (Notes & Comments), and "Sorry Winners" in *Review of Industrial Organization*. In 2007 he has revised two papers: "Should Speculators be Welcomed in Auctions?" that analyzes the effects of speculators in multi-object auctions, and "Bundling and Resale in Auctions" that analyzes the effects of jointly bundling the objects on sale and allowing bidders to resell them. In a joint project with R. Argenziano, he is currently studying the advantages of sharing private information in a dynamic model of learning.

GIOVANNI PICA is Assistant Professor of Economics at the University of Salerno. He received a Ph.D. in Applied Mathematics from the University of Naples *Federico II* in 2001 and a Ph.D. in Economics from Universitat Pompeu Fabra in 2004. In 2002 he has been *Jean Monnet Fellow* at the European University Institute of Florence and in 2003-04 a Lecturer at the University of Southampton. His primary research interests are labour economics and macroeconomics, with a particular emphasis on the role of institutions. The paper "Effects of Employment Protection on Job and Worker Flows: Evidence from the 1990 Italian Reform" (with A. Kugler) has been published in *Labour Economics* this year. His recent paper "Who's Afraid of a Globalized World? Foreign Direct Investment, Local Knowledge and Allocation of Talents" is under revision for the *Journal of International Economics,* while the paper "Capital Markets Integration and Labor Market Institutions" is under revision for the *The B.E. Journal of Macroeconomics*. Recently, he has been commissioned a paper on "The Effect of Employment Protection Legislation and Financial Market Imperfections" on Investment by *Economic Policy*.

SALVATORE PICCOLO is Assistant Professor of Economics at the University of Naples Federico II and currently visiting IDEI in Toulouse. In 2006 he completed his Ph.D. in Economics at Northwestern University. Salvatore also holds a Master in Economics and Finance from the University of Naples and a Master in Mathematical Economics from the University of Toulouse. His research focuses on contract theory and mechanism design, with applications to industrial organization, auctions, banking and general equilibrium theory. In 2007 Salvatore published "Resale Price Maintenance under Asymmetric Information" (with D. Martimort), *International Journal of Industrial Organization*, while in 2008 he published "Vertical Restraints under Asymmetric Information: on the Role of Participation Constraints" (with A. Acconcia and R. Martina), *Journal of Industrial Economics* and "Product Market Competition and Organizational Slack under Profit-Target Contracts" (with M. D'Amato and R. Martina), *International Journal of Industrial Organization*. The paper "The Strategic Value of Quantity Forcing Contracts" (with D. Martimort) is forthcoming in the *American Economic Journal: Microeconomics*. He has also completed three new projects: on common agency and banking (with A. Bennardo and M. Pagano); on Merchant Guilds (with R. Dessì); and on delegation and R&D incentives (with J. Kastk and D. Martimort). Finally, he has started a new project on "Accomplice-Witnesses Regulation, Organized Crime and Corruption" with A. Acconcia and G. Immordino.

MICHELE POLO is Professor of Economics at Bocconi University and Vice-Rector of Bocconi University. He holds a M.Sc. (with Distinction) at LSE and a PhD at Bocconi University. He has published in international journals on industrial organization, antitrust and regulation. He is fellow of IGIER and has been member (2003-2006) of the Economic Advisory Group on Competition Policy at the DG Competition (European Commission). In 2005 he has published the Report *An Economic Approach to Artiche 82* (with J. Gual, M. Hellwig, A. Perrot, P. Rey, K. Schmidt, R. Stembacka), for the DG Competition, European Commission. He has also published the volume *Antitrust: Economia e Politica della Concorrenza* (Il Mulino, Bologna) joint with M. Motta, the chapter “Regulation for Pluralism in the Media Markets”, in P. Seabright J. von Hagen (eds.) *Regulation of Media Markets*, Cambridge U.P. forthcoming 2006. Among recent publications, ”Buyer Power and Quality Improvements” (joint with P. Battigalli e C. Fumagalli), *Research in Economics* (2007) 61: 45-61, “Entry, Product Line Expansion and Predation” (2007) (joint with V. Denicolò and P. Zanchettini), *Journal of Competition Law and Economics,* December 2007; 3: 609-624, “Norms, Flexibility and Private Initiative” (joint with M. Pagano and G. Immordino), CSEF WP 2006, “Take or Pay Contracts and Market Segmentation” (joint with C. Scarpa) and “Judicial Errors and Innovative Activity” (joint with G. Immordino).

MARIA GRAZIA ROMANO is Assistant Professor of Economics at the University of Salerno. She received a Ph.D in Applied Mathematics at the University of Naples Federico II, discussing a dissertation on “Informational Cascades in Capital Markets with Trading Frictions”. She also has a Master in Economics and Finance at the University of Naples Federico II and a Master in Financial Markets and Intermediaries at the University of Toulouse I. Her research focuses on market microstructure, corporate finance, microeconomics. Recent papers include “Learning, Cascades and Transaction Costs”, in the *Review of Finance* (2007), and “Informational Cascades in Financial Economics: A Review”, in the *Giornale degli Economisti e Annali di Economia* (forthcoming). She is currently working on two research projects: the first one, with H. Sabourian, on herd behaviour in financial markets with continuous investment decisions; the second one, with G. Cestone and S. Piccolo, on competition and R&D incentives.

EMANUELA ROSAZZA GIANIN Is Assistant Professor in Mathematics for Economics and Finance at University of Milano-Bicocca and she had the same position from 2004 to 2008 at University of Naples Federico II. She received a DEA in "Probabilités et Finance" at Université Pierre et Marie Curie (Paris VI) in Paris and she holds a Ph.D. from University of Bergamo. Her research focuses on risk measures and Backward Stochastic Differential Equations. Latest publications include “On Haezendonck risk measures” and “Optimal portfolios with Haezendonck risk measures” (both joint works with F. Bellini), the former published on the *Journal of Banking and Finance*, the latter forthcoming on *Statistics and Decisions*. Recently, she has revised the paper “Representation of the penalty term of dynamic concave utilities” (joint with F. Delbaen and S. Peng), available as a working paper on *Arxiv*.

SAVERIO SIMONELLI is Assistant Professor of Economics at the University of Naples Federico II. He has a Master in Economics from the University Pompeu Fabra and a Ph.D. in Economics from the University of Naples Federico II. In 2007-2008 he has been Visiting Fellow at the European University Institute of Florence. His current research focuses on real business cycle, dynamic factor models and forecasting in real time. In 2008 he has published “Interpreting aggregate fluctuations looking at sectors”, *Journal of Economic Dynamics and Control* (with A. Acconcia) and “Labor Market Dynamics and the Business Cycle: Structural Evidence for the United States”, *Scandinavian Journal of Economics* (with M. Ravn). He is currently working on fiscal policy and labor economics (with M. Ravn) and on forecasting in real time (D. Giannone and L. Reichlin).

Francesca Stroffolini is Professor of Public Economics at the University of Naples Federico II. Her research focuses on: welfare theory and inequality, contract theory, regulation. Publications in this field include "Price cap Regulation and Information Acquisition" (with E. Iossa) in *International Journal of Industrial Organization* 2002; and "Price Cap Regulation, Revenue Sharing and Information Acquisition" (with E. Iossa) in *Information Economic and Policy* 2005. Another line of research has investigated how the information acquisition issues affect the desirability of downstream integration in network industry characterized by an upstream regulated natural monopoly and a downstream imperfect competitive market in two settings: downstream demand uncertainty and optimal regulation (*CSEF Working Paper No. 170,* with E. Iossa); upstream cost uncertainty and access price cap regulation (*CSEF Working Paper No.* 193). In this second setting, a recent work highlights how information transmission issues may affect the welfare desirability of adopting access profit sharing plans in the regulation of network industries. She is also working on a research project that analyses the desirability of different forms of private public partnership in local public services (water sector) in various institutional settings.

Visiting Researchers in 2008

YANNIS BILIAS Is a Professor of Econometrics at Athens University. He visited in the Spring to teach a course on Panel Data at the Master of Economics and Finance.

ANDREW ELLUL Is an Assistant Professor at Indiana University. He visited in the Spring to teach a course on Corporate Governance at the Master of Economics and Finance and to work with Marco Pagano on a joint project on investment in family firms.

DIMITRIOS GERORGARAKOS is an Assistant Professor of Economics at Frankfurt University. His research interests include household portfolio choice and applied econometrics. In the Spring of 2008 he visited CSEF to work with Dimitris Christelis on two joint papers analyzing home bias in household portfolio choice and the economic perceptions and consequences of terrorism.

Michael Haliassos Is a Professor of Macroeconomics at Frankfurt University. During his visit to CSEF in June and July of 2008, he worked mainly on research projects on the role of financial advice with Tullio Jappelli and on the home bias in household portfolios with Dimitris Christelis. He also participated in the WISE conference in Salerno, where he discussed a paper by a PhD student, Mr. Notarpietro, and presented his paper on Economic Integration and Mature Portfolios. He attended also the IGIER-CSEF conference in Capri, where he presented his paper on Portfolio Inertia and Stock Market Fluctuations.

Vincent Iehlé has been Post-Doctoral Fellow at the Center for the Study of Organizations and Decisions in Economics of the University Autònoma (Barcelona) and Visiting Researcher at CSEF from January to September 2008, when he has been appointed as Maître de Conférences of Economics at the University Paris-Dauphine (Paris). He holds a PhD in Applied Mathematics from the University Paris 1 Panthéon-Sorbonne (Paris). His current research focuses on game theory and public economic theory. Recent publications include "Sustainability in a multiproduct and multiple agent contestable market", to appear in Bulletin of Economic Research; "The core-partition of a hedonic game", Mathematical Social Sciences; "Payoff-dependent balancedness and cores" (with J.-M. Bonnisseau), Games and Economic Behavior. He is currently participant to the ESF Network on "Public Goods, Public Projects and Externalities".

CHRISTIAN JULLIARD is an Assistant Professor of the London School of Economics, and since the Summer of 2008 is Visiting Assistant Professor at Carnegie Mellon University. He came to Naples in May 2008 to teach a course on the Econometrics of Financial Markets at the Master of Economics and Finance.

CSEF Working Papers

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1 Tullio Jappelli and Marco Pagano, The Determinants of Savings: Lessons from Italy, published in *Accounting for Saving: Financial Liberalization, Capital Flows and Growth in Latin America and Europe*, C. Reinhart ed. Washington: Inter-American Development Bank, 1999.

2 Luigi Guiso and Tullio Jappelli, Background Uncertainty and the Demand for Insurance against Insurable Risks, published in *The Geneva Papers on Risk and Insurance Theor*y, 1998, vol. 23, 7-27.

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18 Giacinta Cestone, Corporate Financing and Product Market Competition: An Overview, published in *Giornale degli Economisti e Annali di Economia*, 1999, vol. 58, 269-300.

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187 Ciro Avitabile, Tullio Jappelli and Mario Padula, *Screening Tests, Information, and the Health-Education Gradient*

The association between health outcomes and education – the health-education gradient - is widely documented but little is known about its source. Using microeconomic data on a sample of individuals aged 50+ in eight European countries, we find that education and cognitive skills (such as verbal fluency) are associated with a greater propensity for standard screening tests (mammography and colonoscopy). In order to study the role of information on the decision to screen, we test whether the health-education gradient varies with the quality of the information provided by the health care system, as proxied by the quality of the General Practitioner. Using an Instrumental Variable approach to control for the potential endogeneity of the GP quality score, we find evidence of a strong and significant complementarity between education and quality of primary care. We interpret this result as evidence that health-education gradient can be explained, at least in part, by the fact that better educated individuals are more able to process and internalize health related information as provided by GPs.

188 Dimitris Christelis and Dimitris Georgarakos, *Investing at Home and Abroad: Different Costs, Different People?*

We investigate US households' direct investment in stocks, bonds and liquid accounts and their foreign counterparts, in order to identify the different participation hurdles affecting asset investment domestically and overseas. To this end, we estimate a trivariate probit model with three further selection equations that allows correlations among unobservables of all possible asset choices. Our results point to the existence of a second hurdle that stock owners need to overcome in order to invest in foreign stocks. On the other hand, we find little evidence for additional pecuniary or informational costs associated with investment in foreign bonds and liquid accounts.

189 Decio Coviello and Mario Mariniello, *Does Publicity Affect Competition? Evidence from Discontinuities in Public Procurement Auctions*

Calls for tenders are the natural devices to inform bidders, thus to enlarge the pool of potential participants. We exploit discontinuities generated by the Italian Law on tender's publicity to identify the effect of enlarging the pool of potential participants on competition in public procurement auctions. We show that most of the effects of publicity are at regional and European level. Increasing tenders' publicity from local to regional determines an increase in the number of bidders by 50% and an extra reduction of 5% in the price paid by the contracting authority; increasing publicity from national to European has no effect on the number of bidders but it determines an extra reduction of 10% in the price paid by the contracting authority. No effect is observed when publicity is increased from regional to national. Finally, we relate measures of competition to ex-post duration of the works finding a negative correlation between duration and the number of bidders or the winning rebate.

190 Alberto Bennardo, *Information Gathering, Disclosure and Contracting in Competitive Markets*

The paper studies the determinants of information gathering in insurance and credit markets. In our set-up, information may have either operational or strategic value, e.g. it may improve allocative decisions or allow agents to appropriate a larger share of gains from trade at the contracting stage. The timing of information gathering is endogenous and agents can gather information either before or after contracting. Access to precontractual information generates a negative contracting externality, which was first identified in Hirshleifer.s (1971) seminal contribution. In contrast with a well established conventional wisdom and a substantial literature, we prove that, if the operational value of information is positive and not "too small", private returns of information fall short of its social returns, and pre-contractual access to information leads to under-investment . On the contrary, agents over-invest in information gathering activities, when the operational value of the available signals is sufficiently low. Consistently with contractual arrangements observed in the real world, we also show that equilibrium contracts have also a very simple shape when private information can be voluntarily disclosed.

191 Giovanni Cespa AND Xavier Vives, *Dynamic Trading and Asset Prices: Keynes vs. Hayek*

We investigate the dynamics of prices, information and expectations in a competitive, noisy, dynamic asset pricing equilibrium model. We look at the bias of prices as estimators of fundamental value in relation to traders' average expectations and note that prices are more (less) biased than average expectations if and only if traders over- (under-) rely on public information with respect to optimal statistical weights. We find that prices are biased in relation to average expectations whenever traders speculate on short-run price move- ments. In a market with long term traders, over-reliance on public information obtains if noise trade increments are correlated enough and/or there is low enough residual uncertainty in the payoff. This defines a "Keynesian" region; the complementary region is "Hayekian" in that prices are less biased than average expectations in the estimation of fundamental value. The standard case of no residual uncertainty and noise trading following a random walk is on the frontier of the two regions. With short-term traders there typically are two equilibria, with the stable (unstable) one displaying over- (under-) reliance on public information.

192 Jakub Kastl, David Martimort and Salvatore Piccolo, *Delegation and R&D Incentives: Theory and Evidence from Italy*

We use data from the Italian manufacturing industry to document the positive relationship between delegation of decisions within organizations and innovation incentives. In order to obtain the causal effect, we build a contract theory model with asymmetric information and moral hazard which predicts that awarding autonomy to the manager spurs innovation incentives relative to arrangements based on vertical control. We use the model to guide our search for suitable instruments. Using several alternative instrumental variables and different specifications we find a strong positive effect of delegation on R&D spending.

193 Francesca Stroffolini, *Access Price Cap Mechanisms and Industry Structure with Information Acquisition*

This paper considers a network industry characterized by an upstream natural monopoly with cost uncertainty, regulated through an access price mechanism, and an unregulated downstream market with Cournot competition. The upstream monopolist can acquire information on the upstream cost while the information acquisition is prohibitively costly for the regulator and downstream firms. The information acquisition is also unobservable. I investigate how the presence of costly and socially valuable information on the upstream cost affects the desirability of allowing the upstream monopolist to produce in the downstream market (integration) rather than excluding it (separation). I show that when the upstream monopolist is regulated only through an access price cap, the information acquisition problem provides an argument in favour of vertical integration. However, when the regulator also obliges the upstream monopolist to share her access profits with consumers, a bias emerges in favour of separation via the impact of the access-profit sharing plan on the upstream monopolist's incentives to transmit information to her rival in the downstream market.

194 Dimitris Christelis, Dimitris Georgarakos and Michael Haliassos, *Economic Integration and Mature Portfolios*

This paper documents and studies sources of international differences in participation and holdings in stocks, private businesses, and homes among households aged 50+ in the US, England, and eleven continental European countries, using new internationally comparable, household-level data. With greater integration of asset and labor markets and policies, households of given characteristics should be holding more similar portfolios for old age. We decompose observed differences across the Atlantic, within the US, and within Europe into those arising from differences: a) in the distribution of characteristics and b) in the influence of given characteristics. We find that US households are generally more likely to own these assets than their European counterparts. However, European asset owners tend to hold smaller real, PPP-adjusted amounts in stocks and larger in private businesses and primary residence than US owners at comparable points in the distribution of holdings, even controlling for differences in configuration of characteristics. Differences in characteristics often play minimal or no role. Differences in market conditions are much more pronounced among European countries than among US regions, suggesting significant potential for further integration.

195 Jean-Marc Bonnisseau and Elena L. del Mercato, *Externalities, Consumption Constraints and Regular Economies*

We consider a general model of pure exchange economies with consumption externalities. Households may have different consumption sets and each consumption set is described by a function called possibility function. Utility and possibility functions depend on the consumptions of all households. Our goal is to give sufficient conditions for the regularity of such economies. We prove that, generically, economies are regular in the space of endowments and possibility functions.

196 Giovanni Immordino and Michele Polo, *Judicial Errors and Innovative Activity*

We analyze the effect of judicial errors on the innovative activity of firms. If successful, the innovative effort allows to take new actions that may be ex-post welfare enhancing (legal) or decreasing (illegal). Deterrence in this setting works by affecting the incentives to invest in innovation (average deterrence). Type-I errors, through over-enforcement, discourage innovative effort while type-II errors (under-enforcement) spur it. The ex-ante expected welfare effect of innovations shapes the optimal policy design. When innovations are ex-ante welfare improving, laissez-faire is chosen. When innovations are instead welfare decreasing, law enforcement should limit them through average deterrence. We consider several policy environments differing in the instruments available. Enforcement effort is always positive and fines are (weakly) increasing in the social loss of innovations. In some cases accuracy is not implemented, contrary to the traditional model where it always enhances (marginal) deterrence, while in others it is improved selectively only on type-II errors (asymmetric protocols of investigation).

197 Tullio Jappelli and Marco Pagano, *Financial Market Integration Under EMU,* forthcoming in *Euro - The First Decade*, edited by Marco Buti et al., Cambridge University Press.

The single most important policy-induced innovation in the international financial system since the collapse of the Bretton-Woods regime is the institution of the European Monetary Union. This paper provides an account of how the process of financial integration has promoted financial development in the euro area. It starts by defining financial integration and how to measure it, analyzes the barriers that can prevent it and the effects of their removal on financial markets, and assesses whether the euro area has actually become more integrated. It then explores to which extent these changes in financial markets have influenced the performance of the euro-area economy, that is, its growth and investment, as well as its ability to adjust to shocks and to allow risk-sharing. The paper concludes analyzing further steps that are required to consolidate financial integration and enhance the future stability of financial markets.

198 Giuseppe De Marco and Jacqueline Morgan, *Social Networks: Equilibrium Selection and Friendliness*

Given their importance in determining the outcome of many economic interactions, different models have been proposed to determine how social networks form and which structures are stable. In Bala and Goyal (2000), the one-sided link formation model has been considered, which is based on a noncooperative game of network formation. They found out that the empty networks, the wheel in the one-way flow of benefits case and the center sponsored star in the two-way flow case play a fundamental role, since they are strict Nash equilibria of the corresponding games for certain classes of payoff functions. In this paper, firstly we prove that all these network structures are in weakly dominated strategies whenever there are no strict Nash equilibria. Then, we exhibit a more accurate selection device between these network architectures by considering 'altruistic behavior' refinements. Such refinements, that we investigate here in the framework of finite strategy sets games, have been introduced by the authors in previous papers.

199 Mario Padula, *An Approximate Consumption Function*

This paper proposes an approximation to the consumption function in the buffer-stock model. The approximation is based on the analytic properties of the consumption function in the buffer-stock model. In such model, the consumption function is increasing and concave and its derivative is bounded from above and below. We compare the approximation with the consumption function obtained using the endogenous grid point algorithm and show that using the former or the latter for estimating the Euler equation leads to very similar results.

200 Tullio Jappelli and Luigi Pistaferri, *Financial Integration and Consumption Smoothing*

We present a new empirical strategy for testing if financial integration improves risk sharing opportunities and consumption smoothing. Our test is based on a decomposition of the variance of consumption growth into a component that depends on the variance of permanent income shocks and one that depends on the variance of transitory shocks. We then test if the process of financial market integration and liberalization brought about by the introduction of the euro has made consumption less sensitive to income shocks in Italy. The paper makes a significant contribution also from a methodological point of view. We use panel data on income to identify non parametrically a time series of the variances of the income shocks. We then rely on repeated cross-sections of consumption and income to identify the degree of smoothing with respect to income shocks, and test if it has declined after the introduction of the euro. Our procedure does not require that consumption and income are available in the same panel data. It can therefore be applied in all countries in which repeated cross-sectional consumption data can be combined with panel data on income.

201 Annamaria Menichini and Peter Simmons, *The Strategic and Social Power of Signal Acquisition*

Within a principal-agent framework with costly state verification, the paper analyses the consequences on the properties of the relationship of the agent acquiring, either before or after a loan contract has been agreed, a public signal which reduces the variance of revenues. It finds that it may be optimal to gather information, either randomly or deterministically, but only after a contract has been agreed and never before. Whenever information is randomly acquired, audits should be deterministic: low revenue reports should be audited always upon good signal realisations and never upon bad signal realisations; high revenue reports should never be audited following any signal realisation. Last, it may be optimal never to audit low revenue reports when, as a result of the randomisation process, information is not gathered. The intuition is that gathering information works as an extra instrument for the principal to elicit truth-telling that allows to better select when to audit thereby reducing the inefficiency associated with it.

202 Roberta Dessì and Salvatore Piccolo, *Two is Company, N is a Crowd? Merchant Guilds and Social Capital*

The paper revisits the rationale for the emergence of merchant guilds within a competitive setting accounting for the dynamic incentives of merchants. Differently from previous literature, we focus on the role of local merchant guilds rather than that of alien guilds and investigate a number of hitherto neglected empirical observations concerning their organization. In particular, focusing on the role played by monitoring technologies, instead of capital-constraints, the simple model we develop delivers predictions about guild size, membership restrictions, and their welfare implications. As we show, these are consistent with the available historical evidence, and shed new light on the role of the guilds' social capital. Moreover, our analysis also provides a theoretical framework capable of accounting for the basic trade-offs involved when a polity's ruler faces the choice of granting recognition to a single or multiple guilds. This helps understanding the observed distribution of guilds, and provides a rationale for the establishment of both local and alien merchant guilds. Therefore, the paper reconciles, to some extent, the different views put forward in the existing literature.

203 Giovanni Immordino and Marco Pagano, *Corporate Fraud, Governance and Auditing*

We analyze corporate fraud in a model where managers have superior information but, due to private benefits from empire building, are biased against liquidation. This may induce them to misreport information and even bribe auditors when liquidation would be value-increasing. To restrain fraud, shareholders optimally choose auditing quality and the performance sensitivity of managerial pay, taking into account external corporate governance and auditing regulation. For given managerial pay, it is optimal to rely on auditing when external governance is in an intermediate range. When both auditing and managerial incentive pay are used, worse external governance must be balanced by heavier reliance on both of these incentive mechanisms. In designing managerial pay, equity can improve managerial incentives while options worsen them.

204 Andrew Ellul, Marco Pagano and Fausto Panunzi, *Inheritance Law and Investment in Family Firms*

Entrepreneurs may be constrained by the law to bequeath a minimal stake to non-controlling heirs. The size of this stake can reduce investment in family firms, by reducing the future income they can pledge to external financiers. Using a purpose-built indicator of the permissiveness of inheritance law and data for 10,245 firms from 32 countries over the 1990-2006 interval, we find that stricter inheritance law is associated with lower investment in family firms, while it leaves investment unaffected in non-family firms. Moreover, as predicted by the model, inheritance laws affects investment only in family firms that experience a succession.

205 Matteo Bassi, *An Egg Today and a Chicken Tomorrow: A Model of Social Security with Quasi-Hyperbolic Discounting*

Strotz (1956) first suggested that individuals are more impatient when making short-run tradeoffs than long-run ones. Many experimental studies supports his conjecture. Motivated by recent evidence from the British Department of Work and Pension (2006), this paper applies this behavioral framework to retirement decisions. We propose a three-periods OLG model with quasi-hyperbolic consumers who save for post retirement consumption in the first period and choose their retirement age in the second. We show that this behavioral assumption explains the observed drop in post retirement consumption due to lack of saving and the high level of voluntary (i.e. not due to disability or dismission from the firm) early exit from the labor force. When deciding about their retirement age, workers weight too much the costs of remaining at work (i.e. disutility of working, implicit tax on continued activity) and too little the benefits of postponed retirement (i.e. increase of the Bismarckian component of the pension formula), perceived as too far in the future. We investigate the implications of time inconsistent preferences for a political economy model in which voters determine simultaneously the size and the degree of redistribution of the pension system. We show that, when voting over the payroll tax, time inconsistent young workers, who look for a commitment device that increases both their saving and retirement age, form a coalition with rich in order to decrease the size of the system. When voting over the degree of redistribution, they form a coalition with poor individuals as to increase the at part of the pension formula. Our political model provides a political justification for the negative relationship between size and redistribution observed in most OECD countries (Disney 2004).

206 Matteo Bassi, *I Will Survive: Capital Taxation, Voter Turnout and Time Inconsistency*

This paper reconsiders the debate around the political determination of capital income taxes and explains why such taxes survive in most OECD countries. The political economy literature on redistributive politics (Persson and Tabellini 2003) emphasizes the role played by the lower class in the political arena: being labor more concentrated than capital, the majority of the population benefits by overtaxing capital and undertaxing labour. However, in reality, political participation (voting, lobbying, protesting etc.) is positively correlated with income. Therefore, a paradoxical result emerges: why do the upper class, who is politically more active and own most of the capital, still favour a positive capital tax? Hence, voters' income is not the sole relevant variable in the political determination of the capital tax. To reconcile this apparent puzzle, we propose a model that incorporates time inconsistency à la Laibson in individual preferences We show that time inconsistent individuals are politically more homogeneous (or "single-minded") than far-sighted, and prefer to tax more capital income, instead of labor income, since accumulated saving are below the planned (and optimal) level and the distortionary effects of a higher capital tax are not only reduced but also delayed in time. We demonstrate that, since politicians find easier to please hyperbolic voters by proposing a tax policy that includes lower labor and higher capital taxes compared to an economy with only far sighted. Moreover, we show that, as the proportion of time inconsistent individuals in the population increases, the tax policy becomes more and more biased towards capital taxation.

207 Niloy Bose, Salvatore Capasso and Martin Wurm, *The Impact of Banking Development on the Size of the Shadow Economy*

This paper employs data on 119 countries for the period 1999/2000 to 2004/2005 to examine the impact of banking development on the size of shadow economies. The main results indicate that an improvement in the development of the banking sector is associated with a smaller shadow economy in a wide cross-section of countries. In addition, both depth and efficiency of the banking sector matter equally in reducing the size of a shadow economy. These stylized results are robust under a variety of specifications and controls for simultaneity bias.

208 Tullio Jappelli, Marco Pagano and Marco di Maggio, *Households' Indebtedness and Financial Fragility*

The paper studies the determinants of international differences in household indebtedness, and inquires whether indebtedness is associated with increased "financial fragility", as measured by the sensitivity of household arrears and insolvencies to the amount of lending and to macroeconomic shocks. It also investigates whether financial fragility is affected by institutional factors, such as information sharing arrangements, judicial efficiency and individual bankruptcy regulation. We address these issues by tapping three data sets: (i) cross-country data on household indebtedness; (ii) European panel data for households lending and arrears; and (iii) time series data for household lending and insolvencies in the U.K., the U.S.A. and Germany.

Overall, the analysis underscores the importance of institutional arrangements in determining the size and fragility of household credit markets.

209 Francesco C. Billari and Vincenzo Galasso, *What Explains Fertility? Evidence from Italian Pension Reforms*

Why do people have kids in developed societies? We propose an empirical test of two alternative theories — children as “consumption” vs. “investment” good. We use as a natural experiment the Italian pension reforms of the 90s that introduced a clear discontinuity in the treatment across workers. This policy experiment is particularly well suited, since the “consumption” motive predicts lower future pensions to reduce fertility, while the “old-age security” to increase it. Our empirical analysis identifies a clear and robust positive effect of less generous future pensions on post-reform fertility. These findings are consistent with “old-age security” even for contemporary fertility.

210 Marco Pagano and Paolo Volpin, *Securitization, Transparency and Liquidity*

We present a model in which issuers of structured bonds choose coarse and opaque ratings to enhance the liquidity of their primary market, at the cost of reducing secondary market liquidity or even causing it to freeze. The degree of transparency is inefficiently low if the social value of secondary market liquidity exceeds its private value. We analyze various types of public intervention – requiring transparency for rating agencies, providing liquidity to distressed banks or supporting secondary market prices – and find that their welfare implications are quite different. Finally, transparency is greater if issuers restrain the issue size, or tranche it so as to sell the more information-sensitive tranche to sophisticated investors only.

211 Alberto Bennardo, Marco Pagano and Salvatore Piccolo, *Multiple-Bank Lending, Creditor Rights and Information Sharing*

When a customer can borrow from several competing banks, lending by each of them raises the customer’s default risk. If creditor rights are poorly protected, this contractual externality can generate equilibria with rationing, as well as others with excessive lending or non-competitive rates. Information sharing among banks about clients’ past indebtedness reduces interest and default rates, improves entrepreneurs’ access to credit (unless the value of collateral is very uncertain) and may act as a substitute for creditor rights protection. If information sharing also allows banks to monitor their clients’ subsequent indebtedness, the credit market may achieve full efficiency.